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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April 1982

The Conference Board

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The Conference Board Survey of Financial Indicators
April, 1982

Introductory Note: This is the twelfth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

The 12th semiannual survey of Financial Indicators and Corporate Financing Plans was conducted during a period in which the economy may well have been close to the eye of a storm. The business climate was marked by a sharp reduction in real investment plans, a large liquidation of inventories, and fears of major bankruptcies. Meanwhile, members of the financial community were nervously watching for the first clues of economic recovery—in the monetary aggregates or in other leading indicators. The monetary aggregates, already growing near or above the upper ranges of their 1982 targets, were expected to grow even more rapidly in April; and the resumption of real economic growth and renewed pressures in financial markets in the third quarter of 1982 were considered a distinct possibility by many in the financial community. The majority of the 37 executives who participated in this survey

- see the recession ending in the second quarter of 1982;
- look for an unusually slow recovery through 1983 with a further lowering of inflation next year;
- expect interest rates to decline moderately through each forecast period, with real interest rates remaining near record levels;
- plan to place relatively greater reliance on internal funds;
- see the U.S. dollar weakening against the German mark and the Japanese yen.

U.S. Financial Indicators

Despite the concerns expressed over the fate of a number of large companies in key industries, the economy as a whole is seen as close to its bottom in the current recession. Real economic growth is expected to be close to zero in the current quarter, and to rise to 3.2 percent in the third quarter. Positive real growth is expected to continue in 1983, at an average rate of slightly over 3.3 percent annually. Three panel members see negative real growth in the third quarter; none has a lower rate of growth for 1983 than for 1982; and only one member thinks there will be another recession in 1983.

Further progress is seen in lowering rates of inflation in the future. The average rate, as measured by the GNP deflator, is expected to decline from 7.5 percent in 1982 to 7.1 percent in 1983. No panel member sees inflation reaching as high as 9 percent in any of the forecast periods through 1983. Only nine panel members look for higher rates of inflation in 1983 than are expected in 1982.

In line with their expectations of a weak economy and moderating inflation, both short-term and long-term interest rates are expected to decline slightly during the forecast period. The Aaa rate will average 14.7 percent in June and 13.3 percent in 1983. The prime rate will average 15 percent in June and 13.4 percent in 1983. With only a weak upturn in economic activity in the third quarter, most panel members see a modest decline in interest rates, rather than the rise expected by a number of sophisticated members of the financial community. The level of long-term rates, however, remains historically high. Even with declining rates of inflation during 1983, no panel member predicts the new Aaa industrial rate will average less than 12 percent in any of the forecast periods.

The panel's outlook for a growth of approximately 7 percent in money GNP this year is consistent with the Federal Reserve's money targets for 1982. However, the panel's outlook for more than 10 percent growth in money GNP *and* declining interest rates in 1983 might not be consistent with a further lowering of money targets in 1983.

Corporate Financing Plans—March 1, 1982 to February 28, 1983

Companies are once again planning to "put their houses in order." In the October, 1981 survey, the par-

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook: Average June '82 (2nd Q GNP)	Outlook: Average Sept. '82 (3rd Q GNP)	Outlook: Average 1982	Outlook: Average 1983
New Aaa industrial rate (%)	15.7	14.7	14.3	14.7	13.3
Prime rate (%)	16.5	15.0	14.7	15.1	13.4
Dow-Jones Average (Index)	851.0	830.0	877.0	859.0	972.0
Real GNP (%)	—5.2	—0.1	3.2	—0.5	3.3
GNP deflator (%)	8.4	7.1	7.0	7.5	7.1

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	75	14	10	7	1	4
External Funds	25	14	1	4	10	7
	100%					
(b) Composition of *External Funds*						
Net bond issues	32.1	13	0	11	2	3
Private placements	11.9	21	0	3	1	4
Net new equity	12.9	20	1	2	2	4
Bank term loans	11.7	20	0	3	1	5
Bank short-term loans	13.0	19	1	1	1	7
Commercial paper	8.9	18	1	3	0	7
Other	9.5	21	1	3	1	3
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1982:

	Latest Available 3/1/82	Expected Change (Number of Respondents): By June 30, 1982 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By September 30, 1982 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8142	13	2	0	15	0	11	8	0	10	0
British pound	1.82	4	7	0	19	0	6	13	0	10	0
German mark	.4182	6	14	3	7	0	2	16	9	2	0
Japanese yen	.0041	5	15	3	7	0	3	14	10	2	0
Gold	$361.25	3	6	2	7	8	2	10	3	5	5

ticipating financial executives saw their companies placing relatively greater reliance on internal funds and lengthening the maturities of their debts. The recession has, however, lowered corporate earnings and, therefore, companies have not been able to rely as heavily on internal funds as they expected last October.

During the latest 12-month financing period, internal funds averaged approximately 75 percent of total corporate funds. This is well below the historical average for the companies that participate in this survey. Internal funds had accounted for 80 percent of total corporate funds during each 12-month financing period from September 1, 1975 through September 1, 1979.

The companies in this survey intend to place much greater reliance on internal funds during the period March 1, 1982 through February 28, 1983. Seventeen executives look for internal funds to rise by at least 5 percentage points, while only five executives see internal funds declining in relation to total corporate funds.

Companies again plan to rely heavily on net bond issues in their external financing plans. Despite their expectations that stock prices will rise through the forecast period, they plan to rely less heavily on net new equity issues.

During the preceding 12-month period, the participating companies substantially reduced their previously heavy reliance on commerical paper, as they had intended; but they also relied more heavily on total bank loans and "other" external funds than they had expected to last October. These external funds may well have served as substitutes for bond financing. The latest statistics available at the time of this survey (March, 1982) revealed an unusually heavy corporate reliance on bank term loans in the first two months of the year, and a sharp buildup in the four-week calendar for corporate issues. U.S. companies also borrowed very heavily in the Eurobond market throughout the first quarter of 1982.

The International Environment

The U.S. dollar remained unusually strong relative to major currencies and gold through the first quarter of 1982. For the most part, this strength is forecast to continue.

Many more panel members see the Canadian dollar and the British pound weakening rather than strengthening against the dollar by June 30th, while slightly more see the British pound strengthening against the U.S. dollar by September 30th.

The majority of panel members look for the German mark and the Japanese yen to strengthen against the U.S. dollar over the next two quarters. But most of this majority expects an appreciation of between 1 and 5 percent—a relatively small move given the dollar's strength in 1981 and early 1982.

The panel's views on gold are divided, with somewhat more members expecting the price of gold to decline relative to the dollar by June 30th, and to rise by September 30th. The absence of a pronounced rise in the price of gold from its recent low levels suggests a renewed confidence in the U.S. dollar.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Stein at (212) 759-0900.

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